

# Strategic Issues of EU Enlargement

*The accession negotiations between the European Union and up to ten first wave candidate countries are expected to come to a close at the end of 2002. While substantial progress has already been made, there remain major challenges to be met by both the enlarging Union and the prospective new members. Our authors, economists from two of the candidate countries, Hungary and Poland, present their views on a number of strategic issues.*

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## Special Challenges and Tasks of "Eastern" Enlargement

The approaching "Eastern" enlargement of the European Union is different in various respects from the pattern of previous enlargements. Western European experts attribute these differences to two basic factors. First, the large number of candidate countries is emphasised, since up to ten countries have justified hopes of concluding negotiations by the end of 2002 and joining the EU by 2004. Second, the relatively low level of economic development is stressed, which, measured in per capita GDP terms, lags behind the average of the present EU and, in most cases, also behind the corresponding indicator of the least developed present member countries.

### Too Many...

It is difficult to contradict the first statement. One can only add that the large number of candidates is the direct result of the lack of a clear enlargement strategy by Brussels and the member countries over a decade. This is in sharp contrast to all other strategic developments of the integration process which had a clear timetable from the very beginning: the common commercial policy between 1969 and 1974, the implementation of the internal market from 1985 to 1992 or, most recently, the economic and monetary union between 1993 and 1999. There can hardly be any doubt that some countries that form part of the Eurocurrency zone today would have been unable to make the necessary (and still not always sufficient) domestic adjustments without a detailed road-map which both forced and encouraged them to follow the prescribed path. Despite the solemn declarations which were made

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time and again concerning the historical importance of "Eastern" enlargement, there was no road-map for it in the nineties. No wonder that each candidate regarded this hesitation both as general uncertainty and as a unique window of opportunity. Thus, once a partial road-map had been created (for the Swedish Presidency and for part of the negotiations, but by far not for the whole process of accession), there were already twelve countries negotiating on joining the EU. The consequence is that, despite substantial differences among the candidates, at a rather advanced stage of negotiations the EU has practically no evaluation instruments or political leverage to reject the application of any of the currently negotiating countries (excepting Bulgaria and Romania). The number of countries joining in 2004 seems to depend exclusively on the internal political and socio-economic development of the candidates and on the outcome of referenda. While self-disqualification cannot be ruled out, EU-driven differentiation, which could have been possible with a clear road-map for the enlargement strategy in the 1990s, has run out of time, and any such initiative at the present stage would be politically extremely risky and counterproductive.

### ... and Too Poor?

Certainly, the candidate countries generally have a lower level of economic development than the present members. However, the general view became victim of an incorrect, oversimplified and therefore dangerous homogenisation among the candidates. In case of a large group consisting of highly different countries – historically, politically, economically, socially and otherwise – any "average" should be avoided. The

differences within this group are much greater (three hundred per cent in GDP per capita terms) than the "development gap" between the more developed candidates and the EU average. Moreover, some candidates are nearer to the less developed EU member countries than the latter to the EU average (let alone to the more developed member countries). Slovenia's GDP per capita is similar to that of Greece or Portugal, and the gap between the Czech Republic's or Hungary's and that of Greece or Portugal is much less than the difference between the Czech or Hungarian GDP and those of the least developed candidate countries.

It is, however, more important to emphasise that the GDP per capita term, certainly a comprehensive one, must not be considered as the exclusive indicator of differentiation among countries. As a static figure it misses the dynamic aspects of catching up which have always been expected to become more important elements once a country joined the EU. Some of the less developed present member countries (mainly Ireland but also Portugal and Spain) were able to substantially approach the development level of more advanced member countries following their accession. The main factor in catching up was, however, not the difference in growth rates but the sustained (and sustainable) appreciation of their national currencies to the ECU (or the DM). (Only part of the difference in inflation rates was compensated by nominal devaluations against the DM.) The same process can be observed today in some of the candidate countries (most notably in the Czech Republic and Hungary, where the national currency appreciated by 12 per cent against the Euro in the last 12 months). Adding to this fact the obvious difference in growth rates, the catching up process could be much more dynamic than expected by some of the experts and observers provided of course that the appreciation of the currency does not undermine the competitiveness of the economy.

Second, the "Eastern" enlargement, in contrast to previous enlargements, is not a narrow-minded European issue but part of the shaping of Europe's position in the global context. Therefore, the strategic question is whether, and if yes, to what extent, the coming enlargement will be able to improve Europe's political standing and economic strength in the world. Two different answers, but with the same outcome, can be given to this question. Many experts argue that "Eastern" enlargement will not only help the EU to become a more important global player (largest domestic market in the world, additional resources,

additional economies-of-scale advantages) but that this factor may become the basic driving force of integration particularly in those areas which used to be characterised by reform deadlock in the last decade (common agricultural policy, institutional reforms, decision-making process, move towards a more federal structure etc.) Others argue in a negative way, saying that nobody knows whether the enlargement will result in better global position of the EU, particularly not in the first years after enlargement (partly due to the "heavy" financial costs of such a step). Nevertheless, delaying or postponing the enlargement by new "Eastern" countries would be much more costly, in security, economic and financial terms.

Third, in a changing world, in which the relative weight of the different production factors is also rapidly changing, static indicators have to be dealt with extremely carefully. Much more attention should be devoted to the question to what extent the candidate countries possess those elements (or production factors) which belong to the driving forces of development in a technology and information driven economic and social system. A cross-country comparison of such factors as the general level of education, availability of human capital, innovative and creative environment, institutional and social flexibility, level of social tolerance or cohesion, etc. would certainly offer a rather differentiated picture (ranking), in which some of the present candidate countries are at least as "developed" as some (or most) of the present member countries.

Fourth, considering the economic structure and competitiveness of the less developed member and the more developed candidate countries, the latter seem to be much more adjusted to and integrated into the EU division of labour than the former at the moment of their accession. Even in a contemporary comparison, some of the candidates reveal a higher share of intra-EU trade than most of the member countries (e.g. 75 per cent of Hungary's exports are directed to the EU, while only two EU member countries have a higher level of intra-EU export shares, Portugal and the Netherlands). Also, the structural development of production and exports, mainly driven by privatisation and greenfield investments carried out by international (and among these, to a large extent by EU-located) companies, seems to be at least as advanced as in many EU countries (again, a Hungarian example: two-thirds of exports to the EU consist of technology-intensive products, or, the value of one ton of Hungar-

ian exports of final manufactured goods to Germany, the major market of almost all candidate countries, is 30 per cent higher than the corresponding figure for Austrian or Spanish exports to Germany). At first glance, there is only one area where the candidates still have to catch up considerably, namely the quality of public administration. Otherwise, most of the visible differences derive from the fact that some countries are members and some others are would-be members (starting from the flow of transfers to the participation in and influence on the decision-making processes within the integration framework).

### **A Key Issue: New Geography of Europe**

Perhaps the most relevant difference between the coming enlargement and the previous ones is to be found in its geographic implications. During the last decades, altogether nine countries joined the founding "core group" of the European integration in four "waves". No less than seven of them are located at the geographic periphery of the continent (excepting Denmark and Austria). Europe has reached its well-defined geographic boundaries in the North (excepting Norway), in the West and in the South (excepting Malta and Cyprus). The next enlargement (or enlargements) will bring into the enlarging Union the continental core of the continent, even if, for understandable reasons, the new Eastern borders of the EU will not reach the rather unclear Eastern borders of Europe. The consequences will be (partly are already) felt in the shifting geo-political balance, and, in a positive scenario, in the emergence of a new growth centre (or centres) in Europe (Central Europe and the Baltic region). More importantly, all of the new member countries will be transit countries, with clear and positive consequences for (two-way) trade and capital flows, more economic investments into the physical infrastructure, more efficient use of the national and community resources available for the development of infrastructure, the cleaning of the environment and the formation of human capital. Last but not least, the new borders – some of them temporary, due to the gradual and further extension of the EU, and some more lasting – clearly require a long-term strategy for dealing with the new neighbours.

### **The Day or the Years After (Enlargement)**

Looking at the current stage of negotiations, at the Commission's plans (even if they are only reluctantly shared by some member countries) and, not less

importantly, at the autonomous political dynamism of the process of enlargement, within less than 20 months up to ten new countries may join the present EU. Evidently, the decision to enlarge will, as in the case of all previous enlargements, be fundamentally motivated by political considerations. It is very telling that the really hard Copenhagen criterion is also the political one. Although there are some economic, legal and institutional criteria as well, they can hardly be applied in such a strict sense as the political criterion. On the contrary, even in the case of evident structural differences, different levels of competitiveness (which can easily be measured with statistical figures), and no less obvious differences in the economic, social, legal and institutional absorption capacity of the individual candidates, the Commission has proved to be extremely cautious in stressing them. The political intention of the enlargement (or the lack of political courage and of strategic thinking in the early period of the process) has always overlapped economic and other considerations and concerns. As a result, the EU (and the candidates) are facing a "big-bang-enlargement", which, of course, not only offers advantages but gives birth to some serious challenges as well. In order to make the coming enlargement a success, which is absolutely necessary to maintain the openness of the integration/enlargement process for countries which are expected to join later, the potential setbacks already have to be reckoned with now. Not with the purpose of slowing down the enlargement process, which would be extremely risky and politically unviable, but in order to identify the necessary elements for counteracting potential negative developments and avoid any kind of "bad surprises".

And precisely in this field a basic difference can be found between the enlargement by Greece, Spain and Portugal, on the one hand, and by the "Eastern" Europeans, on the other. Two decades ago, everybody was aware of the fact that a politically motivated enlargement has some economic consequences, for which the integration has to be prepared in time. Thus, a generous set of financial (and other) instruments was designed and put into practice (regional and structural policies). The coming enlargement, also mainly politically motivated (at least as far as the size of the group is concerned), is not based on the same solid financial fundament, which may make the success of the process less predictable (or, in a less over-optimistic formulation, it may lead to serious negative impacts).

The three challenges for which the enlarging Union has to be prepared are the following. First, the minimum level of the critical mass of internal cohesion of the Union has to be maintained after the first wave of "Eastern" enlargement. Second, the enlarged Union in general, and (some of) the candidate countries, in particular, have to be prepared concerning how to face and treat possible adverse developments after membership, in case it turns out that their adjustment capacity is not sufficiently developed and their hopes for membership do not materialise immediately (or even in the medium term). Finally, and most importantly, the enlarging and the enlarged EU has to have a clear road-map for a second and also potentially for a third wave of enlargement in the next decade (one still in this decade and another one in the first half of the next decade). The sustainability of European stability on the one hand, and the successful implementation of com-

munity policies in such vital areas as foreign and security policy, justice and home affairs, etc., on the other, need a clear strategy covering present, first-wave and later members alike.

There is no longer any reason for deploring which kind of other scenarios, less costly or less risky ways of the "Eastern" enlargement could have been imagined or enforced. We should look at the current situation, identify the chances and risks and make full use of the former, while facing the latter with adequate, in-time designed and efficient strategies and instruments. This is the only way in which the "Eastern" enlargement can not only become a success story for the present and future member countries but rightly deserve the label of the most important "historical project" of the continent in a rapidly changing and globalising environment.

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## Strategy of Poland's Membership in the European Union

In line with the calendar of extension adopted at the summit of the European Council in Nice and Gothenburg, Poland's principal current goal is accession to the European Union in 2004. As a member of the European Union, Poland will be able to influence its future and will not be left outside the decision-making processes of European integration. The Treaty of Nice gives us the assurance of participation in decisions to an extent adequate to the size of our country. However, to make our influence on the decision-making process of the Union efficient enough, it is indispensable to properly prepare strategic activities in a perspective covering not only the negotiations (concerning the conditions of accession) but also the initial years of our actual membership. The balance of the benefits flowing from our membership and the costs of failing to grasp this historical opportunity depend to a great extent on our membership strategy.

Efforts concerning the national integration strategy began in the mid-1990s and a certain amount of experience has been acquired since then. It has to be admitted, however, that both the assumptions of the National Integration Strategy of 1996 and the guidelines of the National Programme of Preparation for Membership had a too general character to enable us

to undertake concrete measures concerning our vision of membership. The European Strategy of the Government of the Republic of Poland adopted by the Council of Ministers on 15 November 2001 had a somewhat more concrete character. That document contains not only elements concerning the preparations for accession, but also certain suggestions concerning Poland's influence on the shape of the EU as soon as accession is completed. Five areas were included in the strategy:

- the Government of the Republic of Poland will strive to make Poland well prepared for membership and able to participate effectively in shaping the activities of the EU from day one following accession;
- the Government will finish the negotiations by the end of the year 2002 so that Poland's accession to the EU will be possible in 2004;
- the Government will ensure a wide participation by society in the process of acceding to the EU;
- the Government will prepare Poland's position in relation to all issues concerning the future of the EU and its common policies;
- the Government will ensure that Poland, as a future member of the European Union, will be able to play a

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role corresponding to its location and importance in the region of Central Europe.

In the first area the Government has rightly undertaken the task of accelerating the process of the adoption and implementation of Community law. Successful adaptation is an indispensable condition for the participation of Polish citizens, firms and institutions in the benefits resulting from Poland's membership of the EU to an extent equal to the benefits available to the Union's citizens and legal entities.

Thus the maintenance of the quick legislation track and the accomplishment of the plan for the adoption of some 70 laws and 900 executive acts is of utmost importance! Is the Government able, however, to ensure the appropriate application of Community law? Shall we introduce the institutional changes necessary for making the Polish administration appropriately prepared for membership of the EU and for the opportunity of shaping the common policies? We have to bear in mind that at the beginning of 2003 Polish officials will take their seats in the committees of the European Union's Council. Without the intensification of activities in the area of the preparation of human resources and without a widely conceived programme of training we shall not be able to cope with that challenge.

More attention should also be paid to the appropriate use of pre-accession assistance and to the preparation of the central government and local self-government administrations to use the Union's funds efficiently to accelerate economic development in Poland. Those resources should strengthen the competitiveness of the economy of Poland and the Polish regions.

Will the Government cope with that challenge, or will the crisis of public finance not be an obstacle to it? The principle of additionality of funds requires co-financing both from the central government and from the local self-governments! This should be a subject of a thorough analysis now. Besides that, Polish business, institutions and entities should already be included in the process.

#### **Fast Negotiations**

In the process of shaping the membership strategy it is necessary to finish the negotiations quickly and cleverly (so that Poland's accession to the EU is possible in 2004). It is also necessary to stress here the importance and significance of negotiations in shaping the membership strategy. Our future strategy will obviously depend on the stipulations of the Accession Treaty.

Each transition period is of essential significance to our future policy in a given area. The greater the number of transition periods, the worse will be our situation and the more constrained will be our freedom of manoeuvre. That is why we should strive to introduce transitional periods only in those areas where they are required by national interest.

The Government strategy assumes readiness to accelerate negotiations and to seek compromises in all the negotiation areas. But will too many compromises be favourable for us? I do not think so. It is true that we have to agree to a compromise as far as the labour force is concerned, because of the sensitivity of that issue for several member countries. But we also have to convince the countries of the European Union that it is not justified by any economic or demographic arguments. Our strategy concerning the labour market should ensure:

- professional development for young people,
- opportunities for learning and acquiring knowledge,
- the creation of opportunities for seasonal work,
- the creation of opportunities for traineeships for entrepreneurs, students, farmers etc.

In the strategy of our activities we have to introduce such instruments to prevent the mass emigration of educated people, talents and intellectual elites. There must be no "brain-drain" from Poland to the Union. How can we accomplish that? We must stimulate socio-economic development and create the foundations for "areas of opportunity" in the regions, so that Poles can travel to the EU to acquire knowledge or experience which they are able to use later in Poland.

In another "sensitive" area the Polish government rightly maintains the position that it is necessary to adopt transition periods for the purchasing of real estate by the citizens of the EU member countries in Poland. The length of those transition periods should however be reduced, in particular as far as the purchase of land for investment purposes is concerned. This is important in view of the reduced rate of Poland's economic growth and the necessity to attract further investors from abroad. A reasonable strategy concerning the regulation of real estate trading should be adopted, which takes into consideration the long-term interests of Polish village dwellers and Polish agriculture. The effects of the treaty stipulations in this area will have a very long-term impact and each error will be extremely costly! It is therefore essential to

adopt a clever law in this area. The law and the treaty should secure the following elements:

- elimination of the possibility of speculation with farm land,
- consideration of the needs of Polish village dwellers in farm land trading,
- retention of the "Polish character" of rural areas,
- retention of the so-called "landscape of Polish rural areas" and their regional features,
- securing income for Polish farmers,
- opening of Polish agriculture to innovation as far as genetic science, culture and the organisation of work of the EU countries are concerned,
- putting waste land to appropriate use.

The Government strategy rightly stresses the necessity to accelerate the negotiations in the areas of agriculture, regional policy, finance and the budget, so that Poland's interests in other negotiation areas are not burdened with unsolved problems. "Clever compromises" have to be agreed upon, however. The compromise concerning fishing grounds should not lead to the overfishing of cod in our fishing zone, and the compromise concerning budgetary questions should not lead to losses in the inflow of Union resources. The area of agriculture is even more delicate in nature.

#### **Societal Participation**

The Government ensures the widespread participation of society in the process of accession to the EU and has opted for a referendum. The Government also ensures social dialogue and consultation concerning all its activities with all social groups. I am of the opinion that it is a difficult task and work should already be started on elaborating the model of dialogue and consultations. The model of the dialogue will be an important factor in working out a consensus concerning Union-related issues in the future. We know that the positions of the union of entrepreneurs and the trade unions may differ.

The Government has committed itself to conducting a widely conceived information campaign aimed at informing society about the consequences of Poland's accession to the EU. One can only hope that this campaign will have a sound, clever and efficient character and will not be confined to the presentation of costly TV spots and outdoor billboards.

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#### **The Future of Europe**

The Government has committed itself to preparing positions related to all issues concerning the future of the EU and its common policies. The government ensures that these positions will already be presented to the EU member countries in the pre-accession period in order to reveal the foundations of our country's participation in the debate concerning the vision of a future Europe: institutional reforms, economic and monetary union or the European defence identity. Poland should be prepared to represent her interests from the very first day of her membership. That is why it is important to be perceived as a credible member with a clearly defined vision of participation in a united Europe. In the very near future the vision and the strategy for its implementation should be prepared. The whole of our society should take part in the preparation of this strategy.

#### **Poland's Role in Eastern Europe**

The Government will ensure that Poland as a future member of the European Union will play a role corresponding to its location and importance in the Central European region. It is rightly assumed that Poland should advocate the interests of the countries in that region. Poland should also strive for the development of relations between the Union and our eastern partners, using the opportunities that appear thanks to her membership in the EU. The societies of those countries should be convinced that Poland's entry to the Union will not create new divisions, but open new roads to cooperation.

The Union should not consider even a part of its eastern neighbourhood as being incapable of complete participation in the integration process. This perspective should not be ignored using the argument of the economic situation. The Union should apply the criterion of openness in its "eastern" strategy. Perhaps such countries as the Ukraine and Moldova or the Balkan countries would like to adopt the formula of confederation (proposed in the years 1989-90 to Poland and Czechoslovakia). Opting for the controlled openness of the eastern borders, we must at the same time take care to simplify technical regulations concerning the issuance of visas and limit their cost to the necessary minimum, so that Poland is not closed to citizens of those countries.

As can be inferred from the above analysis, the European strategy prepared by the Government is an important step towards the preparation of a comprehensive, internally consistent document, which

would cover all principal strategic goals in a concrete arrangement of instruments for their implementation. It is important to prepare strategies for areas, policies etc. in such a way that they do not contradict one another.

In the following we shall present some principal strategic solutions for the first years of membership for several selected areas and policies, with the intention of initiating a preliminary discussion.

### Institutional Issues

For a number of years the approaching extension of the EU has constituted the starting-point for a political debate concerning the institutional reform of the EU. The legal and technical questions related to the adaptation of institutions to the new situation that will develop after the accession of twelve candidate countries are to a lesser extent the subject of the debate, however. The most important and at the same time the most difficult issue is the elaboration of the future model for cooperation of the member states and their relations with the European Union. The creation of an institutional vision constitutes the foundation of the EU's development. The future shape of Europe, however, has not yet been finally determined. The issue will probably be settled during the next intergovernmental conference, at which Poland's representatives will have the opportunity to exert their influence. It is thus worthwhile to analyse and adopt a position on the various propositions for the evolution of the process of European integration.

One of the propositions suggests a European federation similar to that of the United States (Germany and Belgium seem to be the most ardent proponents of such an approach). To this end the position of the European Commission would be strengthened: the Commission would then play the role of a European government, and its president (elected in a general and direct vote) would become at the same time the president of the established federation. The influence of the European Parliament on shaping Community law would also increase as a result of the introduction of common decision-making procedures to a larger number of areas and the limitation of the number of decisions made by the EU Council in a unanimous vote. Treaties would be collected together into a constitution, in which the division of competences among the EU, member states and regions would be precisely delineated. Those activities would contribute to the strengthening of regions in the EU and to the strengthening

of the EU as such. Thus the power of the EU member states would be weakened.

Another concept for the EU's future foresees the creation of a union of sovereign national states (France and Sweden tend to opt for this solution). A confederative vision of Europe assumes the retention of the existing balance of power between the European Commission, the Council of the European Union and the European Parliament. It assumes a certain strengthening and enhancement of the efficiency of their activities. The Council of the European Union should remain a centre of power, while the activities of the European Parliament would be controlled by another chamber or congress representing national parliaments. The assumptions of that concept concerning the institutions are supported by the United Kingdom, the prime minister of which opts for a "superpower but not for a superstate".<sup>1</sup> The difference between the United Kingdom's approach and the approach adopted by France consists in its relation to the constitution. Tony Blair rejects the idea of a constitution, opting for a Collection of Principles. On the other hand the prime minister of France, like the representatives of the German Government, supports the idea of a European Union constitution.

There is no doubt that the institutional reform of the EU should guarantee the effective operation of institutions and the assurance of full democratic control so that the more and more visibly emerging eurosceptical social attitudes could be reduced. Putting the EU closer to the citizenry, the creation of more democratic and more effective institutions, are activities also emphasised by the European Commission within the framework of realisation of one of the four strategic objectives of the European Union for the years 2000-2005, i.e. the elaboration of new forms of the European decision-making process.<sup>2</sup>

Governments, parliaments, and the regional and local authorities of member states already constitute an integral part of European decision-making structures and participate in the creation, realisation and dissemination of information on EU policies. Yet in the era of globalisation and in order to strengthen the vision of a common European future it is essential to strengthen the EU institutions. A stronger concentra-

<sup>1</sup> A. Małyński: Debata czterech liderów politycznych o przyszłości UE, in: *Wspólnoty Europejskie*, No. 6 (118) 2001.

<sup>2</sup> Strategic Objectives 2000-2005. Shaping the New Europe. Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, COM (2000) 154, Brussels 9.02.2000.

tion on the basic tasks assigned to the existing organs and institutions should serve the realisation of that purpose. It is also essential to consider an increase of the competence of some of them, for instance the national parliaments. Thanks to the protocol attached to the Treaty of Amsterdam there is an obligation to inform them about all planned activities within the EU framework. The assignment of rights to national parliaments is a step towards an increase in democracy within the framework of the EU (the control of legislation processes, particularly in those areas where the role of the European Parliament is still limited – the third pillar). The strengthening of the executive authority also requires an extension of the delegation of rights and the decentralisation of the implementation of particular policies.

A further deepening of the process of European integration will only be possible thanks to the efficiency and effectiveness of the European Union. The extension of the EU to include the countries of central and eastern Europe will contribute to a considerable differentiation of the EU. Under such circumstances the lack of institutional reform and rejection of the concept of a federal Europe could lead to the fulfilment of the "black" scenario for the development of European integration.<sup>3</sup> Poland should then strive to strengthen the institutions representing the interests of the European Union, while taking into consideration the needs of the smaller and weaker member states.

#### **Redistribution Policy, Structural Funds**

Each candidate country has counted and still counts on receiving financial assistance from the Union, the assistance being granted in most cases via structural funds. A small flow of pre-accession funds (they should definitely not be overestimated) will change into a large flow of structural funds. It is beyond doubt that there is some anxiety concerning the rational use of those resources. We have examples of very good use of structural resources e.g. within the framework of regional policy (Ireland, Emilia Romagna) and examples of their very bad use and consumption (Greece). It depends on us whether we are able to invest the resources offered to us by the Union properly or just consume them. We already have to "train" the investment direction now when using the ISPA or SAPARD funds. The use of redistribution policy instruments and structural funds after getting full membership rights depends on the enhancement of the activities of

central, regional and local self-government authorities as well on the science, business and human resources potential in Poland. This is the game which we could and should win.

I am, however, strongly of the opinion that Poland as a member country should actively opt for the continuation of the current policy of redistribution (particularly the regional policy) in the Union. We have to strongly oppose the opinion of a number of economists in the Commission who express the view that the regional policy of the Union is characterised by low efficiency and that resources spent on the reduction of the gaps between wealthy and poor regions are wasted and even tend to maintain the existing gaps. We should stress the positive impact of a regional policy aimed at the enhancement of economic development in less developed countries and regions. Poland has – generally speaking – an unfavourable geographical location, situated at the fringes of the European market, which could entail a slower pace of economic development. That is why from our point of view the redistribution policy should retain its current shape and radical changes should be avoided, in particular the following:

- the introduction of greater competitiveness among the regions applying for assistance; financial resources should be granted for the best projects;
- the abandonment of the non-repayable assistance of the Union offered in the form of grants, which are not motivating enough and are easily wasted. The provision of soft loans or even loans bearing zero interest rates would be a possible solution.

The redistribution policy modified in this vein will limit our access to financial support for economic development from the Union's resources. In a situation of deficiency of our own resources we will actually remain at the margins of Europe. There are, however, some elements of change in the policy of redistribution that have to be promoted. The following propositions may be mentioned among them:

- the establishment of clear criteria concerning the granting of funds, the elimination of unnecessary bureaucratic procedures and an increase of monitoring factors;
- an increase in the involvement of local self-government and private partners in regional programmes.

#### **Industrial Policy**

In the area of industrial policy Poland has not applied for transition periods and fully accepts the legal

<sup>3</sup>G. Bertrand, A. Michalski, L. R. Pench: Scenarios Europe 2010. Five Possible Futures for Europe, European Commission, Forward Studies Unit, 1999.



system of the EU. Community legislation in this area does not require a transposition to the domestic legal system, and the only requirement is the capacity to cope with the competition of the Union's enterprises.

The community activities in the sphere of industrial policy are confined to support for the development of industry in order to improve its competitiveness, assuring economic growth and the creation of new jobs. It consists first of all in building favourable conditions for the development of companies and supporting the growth of their competitiveness, principally via the application of solutions of a horizontal character, focusing on the protection of competition, support of scientific research and technological development, upgrading skills or supporting small and medium-sized enterprises as far as access to information and economic support is concerned. Sector-oriented activities concerning first of all the "sensitive" sectors gradually lose their importance even though they are still applied in the EU.

Thus, analysing the issues related to Poland's industrial policy in the context of her future membership in the EU, we have to go beyond narrowly defined industrial policy, taking into consideration first of all the following issues:

- competition policy, in particular the principles of public assistance to sectors subject to restructuring,
- support for research and technological development,
- policy oriented towards small and medium-sized enterprises.

If in the question of support of R&D activities and support of small and medium-sized enterprises Poland has fully accepted the *acquis communautaire* and did not apply for any transition periods, in the area of competition policy Poland has applied for a transition period lasting until 2017, with the intention of allowing public support in the form of tax reliefs offered to enterprises operating in Special Economic Zones. Certain controversies arise in relation to the problems of environmental protection, the saving and restructuring of enterprises that are in difficulties, the restructuring of the steel and mining sectors, and issues related to regional assistance. The acquirement of certain concessions in those areas is an essential condition for the reduction of disproportions between Poland's development and that of the EU countries and the finalisation of the processes of economic transformation and restructuring. We cannot fully agree with the

position of the EU that in the case of assistance to environmental protection projects and assistance for the bailing out and restructuring of enterprises the use of the opportunities provided for in Community principles is sufficient for the solution of the existing problems. It would put our companies in an unfavourable position since enterprises and some sectors of EU industry (considered as sensitive), in the case of difficulties resulting from the growing competition emerging from the third countries, used widely conceived support and restructuring programmes for decades. In particular the problems of special treatment of the mining and steel industries (currently undergoing a profound restructuring in Poland) is at present very important because of the cessation of activities within the framework of the ECSC on 23rd July 2002. In practice it means that the mining, steel and metallurgy industries will be treated in the EU as other sectors of industry.

It is worth recalling that steel metallurgy in the EU has been taking advantage of various forms of assistance for a number of years. The principles of assistance available to the steel industry were defined in six subsequent Steel Aid Codes. Even though the ECSC Treaty forbade the provision of public aid, various forms of subsidies to the steel industry were allowed in various periods (according to article 95).

Similarly in the coal industry, starting from the year 1960 national assistance programmes were introduced on the basis of art. 95 of the Treaty in order to soften the consequences of restructuring.

Serious doubts concerning public aid arise in relation to the obligations adopted by the EU member countries in Stockholm and Lisbon concerning the reorientation of public aid from the provision of support to individual firms and sectors towards horizontal objectives of common importance. The problem consists in the fact that in Poland about 60% of public assistance is directed towards sectors undergoing difficulties, i.e. has a sectoral character (in the EU - 9%). The realisation of the obligations adopted in Stockholm and Lisbon may mean serious difficulties in the continuation of the restructuring of Polish industry and the improvement of its competitiveness.

Thus, Polish strategy in the area of broadly defined industrial policy (during the negotiations and later during the initial period of operation within the European structures) should first of all aim towards the securing of such conditions for the development of domestic industry as were taken advantage of for decades by the European enterprises.